

CITY OF SAN DIEGO ETHICS COMMISSION

AUDIT MANUAL DRAFT AMENDMENTS - STRIKEOUT -

April 7, 2005



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I. INTRODUCTION

A. Objective

San Diego Municipal Code section 26.0414 mandates that the San Diego Ethics Commission [Commission] propose procedures for conducting audits of campaign, lobbying, and conflict of interest disclosure forms. The primary objective of this manual is to set forth standards and provide guidelines and procedures to assist staff in implementing this requirement.

The *Commission* shall not audit any action or event that occurred prior to July 1, 2001, or any record thereof, whether or not that action or event was disclosed, or reasonably should have been disclosed, after that date.

B. Audit Standards

~~The audit standards of the *Commission* are based on the opinions expressed in “Statement on Auditing Standards Number 7,” issued by the American Institute of Certified Public Accountants (“AICPA”). According to this statement, each audit must conform to established audit standards. AICPA auditing standards are used to measure the work done by the auditor to determine the acceptability of the audit. Auditing standards consist of general standards, standards of fieldwork, and standards of reporting. These standards are set forth in Appendix A.~~

Each audit must conform to the *Commission’s* auditing standards. These standards consist of general, fieldwork and reporting standards, and are set forth in Appendix A. To the extent possible, the audit standards of the *Commission* are those expressed in the General Accounting Office’s publication, Government Auditing Standards, 2003 revision, and generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants (AICPA).

C. Definitions

Each word or phrase that is defined in this manual appears in the text of this section in italicized letters. For purposes of this manual, the following definitions shall apply:

Audit file includes any documents filed by a *committee*; *audit workpapers*; research conducted by the auditor; correspondence between the auditor and the *committee*; and any reports arising from previous audits of the *committee*.

Audit period means the period of time encompassing activities by the *committee* that are covered by the audit.

Audit workpapers means the documentation created by the auditor during the audit testing

Auditor notification letter means written correspondence sent by the auditor to a *committee* selected for an audit, scheduling the *initial meeting*, listing the records required for the audit, and enclosing an *audit questionnaire*.

Ballot measure committee means a *committee* organized to support or oppose the qualification or passage of a City measure for the ballot.

Bank reconciliation means a comparison of a *committee's* check register and bank statements for purposes of locating discrepancies.

Campaign audit means an audit of the financial activities of a *committee* organized to support or oppose a candidate or ballot measure in the City of San Diego.

Campaign Audit Questionnaire means a written series of questions drafted by the auditor and submitted to the *committee* prior to the *initial meeting*. This questionnaire typically contains questions seeking background information regarding the *committee*, such as the names of principals and length of time organized as a *committee*.

Candidate committee means any *committee* that supports or opposes a candidate for elected office for the City of San Diego. A *candidate committee* may be a candidate-controlled committee or a committee that is not controlled by a candidate.

City Clerk means the duly appointed City Clerk of the City of San Diego or any authorized designee.

Commission means the City of San Diego Ethics Commission.

Commission notification letter means written correspondence sent by the *Commission* to a *committee* notifying it that it has been randomly selected for an audit.

Committees include *candidate committees*, and committees supporting or opposing City of San Diego ballot measures.

Draft audit report means a report prepared by the auditor at the conclusion of an audit, and submitted to the subject of the audit for review and comments. The *draft audit report* contains *material* findings regarding the activities of the subject of the audit.

Final audit report means a report prepared by the auditor at the conclusion of an audit, and either (1) contains no *material* findings; or (2) contains comments and explanations furnished by the subject of the audit in response to the *draft audit report*.

Form 410 means the Statement of Organization form required to be filed by any entity qualifying as a recipient *committee*.

Form 460 means the Recipient Committee Campaign Statement required to be filed by candidates, officeholders, and their controlled *committees* who have, or will, raise or spend \$1,000 during a calendar year in connection with election to officer or holding office.

Form 461 means the Major Donor Independent Expenditure Committee Campaign Statement required to be filed by individuals or entities that make independent expenditures totaling \$1,000 or more in a calendar year to support or oppose City candidates or ballot measures.

Form 465 means the Supplemental Independent Expenditure Report required to be filed by any

committee making independent expenditures totaling \$1,000 or more during a calendar year to support a single candidate for local elective office or the qualification of a single ballot measure.

Form 470 means the Officeholder and Candidate Campaign Statement (Short Form) required to be filed by officeholders and candidates who do not have a controlled *committee*, who raise less than \$1,000 in a calendar year, and who spend less than \$1,000 in a calendar year.

Form 470 Supplement means a report required to be filed by any officeholder or candidate who filed a Form 470 and subsequently received contributions totaling more than \$1,000 in contributions.

Form 496 means the Late Independent Expenditure Report required to be filed by *committees* that make independent expenditures of \$1,000 or more to support a single candidate or measure during the 16 days prior to an election.

Form 497 means the Late Contribution Report required to be filed by *committees* that make or receive contributions of \$1,000 or more during the 16 days prior to an election.

Form 501 means the Candidate Intention Statement required to be filed by any candidate who plan to receive contributions.

Form 700 means the Statement of Economic Interests required to be filed by any candidate for elected office in the City of San Diego.

High Level Filer means the Mayor, the members of the City Council, the City Attorney, City Manager, City Treasurer, City Auditor, Planning Commissioners, members of the Funds Commission, members of the Retirement Board, members of the San Diego Data Processing Corporation Board, members of the Defined Contribution Plan Board, the Ethics Commission, and any candidate for an elective office of the City.

Initial meeting means the first meeting between the auditor, treasurer, or representative of the *committee* selected for the audit. At this meeting, an overview of the audit process is explained, answers to the *audit questionnaire* are discussed, and internal policies and procedures of the *committee* are explained. Clarification may be sought with regard to any discrepancies the auditor may have found during the preliminary review.

Internal control means the policies and procedures implemented by a *committee* for conducting its business.

Lobbyist means an individual who receives or is entitled to receive the “threshold compensation” amount during any calendar quarter for lobbying, and who has had at least one direct communication with a City official in that calendar quarter. ~~For calendar year 2002, the threshold compensation is \$2,288.~~

Lobbyist audit means a review of the financial activities of a *lobbyist* registered with the City of San Diego to ensure compliance with local lobbying laws.

Local Code Filer means any City board member, and any employee of the City, except for classified employees, who is required to file a Statement of Economic Interest pursuant to a conflict of interest

code adopted by City Council.

Material means having significant importance. Factors that may be considered in determining materiality are: 1) significance of dollar amounts; 2) significance of percentages; 3) importance of item to purposes of State or local law; 4) frequency of occurrence; and 5) nature of transaction. A consideration in determining the materiality of errors in situations involving other than dollar amounts is whether the item or party can reasonably be identified. Parties that should be identifiable in the filings include the filers, employees, payees, subvendors, contributors, guarantors, *committees*, and beneficiaries.

Post audit conference means the meeting between the auditor and a representative of the *committee* selected for the audit, held after the completion of the audit testing, and after the *committee* has had a reasonable opportunity to review the *draft audit report*.

Preliminary audit tests means a review of the *committee's* campaign statements to determine whether the *committee* submitted the required filings and whether such filings contained all of the required information.

Sampling means selecting pieces of data that are extrapolated to make conclusions regarding the entirety of data that is the subject of the audit.

II. AUDIT SELECTION PROCESS

Audit selection shall be based on the following *Commission* approved guidelines:

A. Campaign Audits

~~The *Commission* has established guidelines regarding the selection for audit of *candidate committees* and *ballot measure committees*. Staff shall provide notice to *committees* whenever the *Commission* calendars the item of audit selection for consideration. The *Commission* shall also notify the *committees* that have been selected for audit.~~

During every odd numbered year, the *Commission* shall schedule a random drawing of *committee* names at a meeting open to the public. This meeting shall take place prior to ~~April~~ September 15 unless the *Commission* has good cause for scheduling the meeting on a later date, with the exception of the drawing in 2005 which shall take place prior to May 1.

Prior to the date of the random drawing, the *City Clerk* shall ~~compile the names of (1) every *candidate committee* that supported or opposed a candidate who sought elective City office at an regular or special election held within the previous two calendar years; and (2) every *ballot measure committee* that filed a campaign statement with the *City Clerk* during the previous two calendar years. The names compiled shall be categorized by the following four criteria: (1) whether it is a candidate-controlled *committee*; (2) whether it is a *committee* other than candidate-controlled *committee*; (3) whether its financial activity was \$75,000 or greater; and, (4) whether its financial activity was between \$10,000 and \$74,999. A *committee* with less than \$10,000 in financial activity shall not be audited. determine the qualifying pools of *committees* potentially subject to audit. The qualifying pools consists of (1)~~

every *candidate committee* that supported or opposed a candidate who sought elective City office at a regular or special election held within the previous two calendar years; and (2) every *ballot measure committee* formed to support or oppose a ballot measure at a regular or special City election within the previous two calendar years. The *City Clerk* shall then determine the level of financial activity for each qualifying *committee* based on the following:

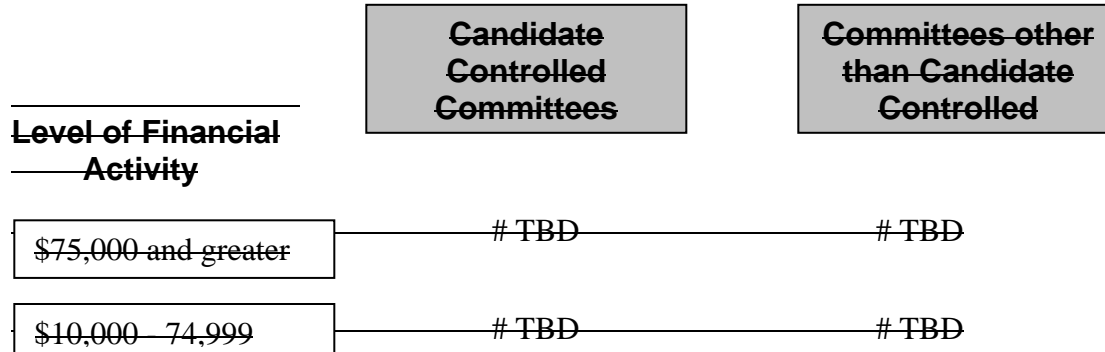
- The total of all contributions (monetary and non-monetary) and loans received by the Committee through June 30 of the current year, with the exception of the 2005 drawing which shall be the total of all contributions (monetary and non-monetary) and loans received by the Committee through December 31, 2004.

The level of financial activity shall be based solely as follows:

- ~~Candidate committees: the total of all monetary and non-monetary contributions and loans received by that committee since the last election for that office.~~
- ~~Ballot measure committees: the total of all monetary and non-monetary contributions and loans received by that committee.~~

~~Each committee potentially subject to an audit shall fall into one of the four audit pools depicted on the chart shown below.~~

FOUR SEPARATE AUDIT POOLS



The City Clerk shall then categorize all qualifying committees according to the chart below:

Level of Financial Activity	Candidate Committees	Ballot Measure Committees
\$100,000 or more	75%	75%
\$ 50,000 - \$99,999	50%	50%
\$ 10,000 - \$49,999	50%	50%

All qualifying *committees* will be subject to a random drawing, with the following exceptions:

- Prior to the random drawing, the *Commission* shall determine whether any *committee* on the list is the subject of a pending enforcement action by the *Commission* and consider whether such *committee* should be subject to the audit selection process. The *Commission* may, subject to its discretion, instruct the City Clerk to refrain from placing into a pool the name of any *committee* that meets all of these criteria: (a) the enforcement action is based, in whole or in part, on an alleged violation of the City's Election Campaign Control Ordinance; (b) a formal investigation has been approved by the *Commission* with regard to the alleged violation; and (c) an audit of the *committee* would likely require duplicative efforts of *Commission* staff or otherwise result in an inefficient use of *Commission* resources.

The number of *committees* selected for audit shall be based on the following:

- 75% of the *committees* with financial activity of \$100,000 or more will be selected for audit; and
- 50% of the *committees* with financial activity of \$50,000 to \$99,999 will be selected for audit; and
- 50% of the *committees* with financial activity of \$10,000 to \$49,999 will be selected for audit; and
- The percentages specified above will be applied to both types of *committees* separately; and
- At least one audit shall be selected from every category containing one or more *committee*.

If the percentages specified above result in a fraction, any fraction .5 and above will be rounded up to the next whole number, and any fraction less than .5 will be rounded down to the next whole number, except in cases where the percentage results in less than one *committee* selected. The *Commission* will audit at least one *committee* in each of the six categories outlined above.

At the meeting in which the random drawing is conducted, the *City Clerk* shall present a list of the names of the *committees* subject to the random drawing. The *City Clerk* shall print the name of each *committee* on a separate piece of paper and place each *committee* name in its respective pool. Each piece of paper shall be indistinguishable from every other piece of paper except for the name of the *committee*. The *City Clerk* shall draw the *committee* names from the audit pools in a manner that ensures that the selections are made on a purely random basis.

If a *committee* controlled by a candidate is selected for audit at the random drawing, any other *committees* controlled by the same candidate during the audit period shall be included in the audit. A candidate controls a *committee* if he or she, his or her agent, or any other *committee* he or she controls has a significant influence on the actions or decisions of the *committee*.

~~At the time of the random drawing, the *Commission* shall determine, by majority vote, the number of *committee* audits to conduct during that calendar year, and the number of *committees* to be selected from each audit pool. The *Commission* shall conduct a maximum of four *committee* audits for the 2002~~

~~election cycle—one from each pool—and shall return to the City Council in future years with a proposal for the appropriate number of audits. Once this determination has been made.~~

The *Commission* shall send a *Commission notification letter* to each *committee* selected for audit. The *Commission notification letter* shall be sent without undue delay following the selection process described above ~~in sections A and B~~. The *Commission notification letter* shall alert the *committee* of imminent contact by the auditor selected to conduct the audit.

In addition to the *committees* chosen in the random selection process, the *Commission* may audit *committees* as a result of filing irregularities identified by City Clerk staff a complaint that leads to an investigation, regardless of the committee's level of financial activity.

B. Lobbyist Audits

The *City Clerk* will conduct reviews of Lobbyist Registration and Quarterly Reports for compliance with the reporting requirements set forth in Chapter 2, Article 7, Division 40 of the San Diego Municipal Code [SDMC], entitled “Municipal Lobbying.” Deficiencies noted by the *City Clerk* may be referred to the *Commission* for possible investigation as a complaint.

The *Commission* will review and monitor *lobbyist* Quarterly Reports twice a year to ensure that *lobbyists* properly report activity expenditures ~~and to ensure that individuals meeting with or providing gifts to high level filers are registered as lobbyists if they meet the threshold determination defined in SDMC section 27.4005. Any irregularities noted shall be referred to the Commission for possible investigation as a complaint. The objectives and procedures for this review are contained in the Lobbyist Audit Template under section V.~~

C. Conflict of Interest Forms

The *Commission* will not conduct audits of Statement of Economic Interest (SEI) forms filed by City Officials or candidates for elected office. The *City Clerk* will review these statements. Irregularities noted by the *City Clerk* may be referred to the *Commission* for possible investigation as a complaint.

As part of the review of *lobbyist* activity expenses, the *Commission* will review and monitor Schedule E of the SEI's of ~~Income Gifts to ensure that activity reported by a high level filers and local code filers, on Schedule E and received from a lobbyist was included on the Lobbyist Quarterly Report. The objectives and methodology for this review are contained in the Lobbyist Templates in section V.~~

D. Commission Notification

~~The Commission shall send a Commission notification letter to each committee selected for audit. The Commission notification letter shall be sent without undue delay following the selection process described above in sections A and B. The Commission notification letter shall alert the committee of imminent contact by the auditor selected to conduct the audit.~~

III. AUDIT PROCESS AND PROCEDURES

A. Campaign Audits

1. Audit Notification

The auditor shall send an *Audit Notification Letter* to every *committee* selected for audit. This letter shall inform the *committee* of the audit commencement and shall identify the *audit period*. The *Audit Notification Letter* shall also contain a list of documents required for the audit (see Appendix B) and the *Campaign Audit Questionnaire* (see Appendix C). The letter will include a request that the *committee* complete and return the *Campaign Audit Questionnaire*, along with the committee's bank statements and check register, prior to the *initial meeting*.

2. Preliminary Work

The auditor shall make all reasonable efforts to minimize the time, effort, and expense required of the *committee* in complying with these audit procedures. In the event that the *committee* is audited by the California Fair Political Practices Commission [FPPC] during the same calendar year, the auditor shall audit the *committee* chosen during its random drawing based only on those local regulations that are not part of the FPPC's regulations.

The auditor shall attempt to complete preliminary work prior to the initial interview or examination of the filer's records. The preliminary work includes:

a. Obtain *committee* campaign statements and reports from the *City Clerk* (Appendix D).
Review the statements and reports for completeness, timeliness and mathematical accuracy.

b. Review any prior *audit workpapers*.

c. Review completed *Campaign Audit Questionnaire*.

d. Review or perform *bank reconciliation*.

e. Prepare *audit file*

By reviewing the *Campaign Audit Questionnaire* and reviewing or completing the *bank reconciliation* prior to the *initial meeting*, the auditor will be able to identify discrepancies and determine the extent of the audit testing.

1. ~~Preparation and Review of Audit File~~

• ~~Audit file:~~

~~To prepare the *audit file*, the auditor should make copies of all relevant documents, which~~

generally include the *committee's* campaign statements and reports, correspondence, documents submitted by the candidate regarding his/her candidacy, filings required under local law, previous audit reports, if any. Documents produced by the auditor and correspondence relating to the audit will be placed in the *audit file* with the above-referenced documents. See Appendix B for examples of documents that may be obtained from the City Clerk's office.

The auditor should review the *audit file* to determine whether there are missing statements, reports, or other filings. (For missing documents, the auditor should research the *Commission* files again—or the files of the *City Clerk*. Thereafter, if documents are still missing, the auditor should make note of this fact and discuss it with the *committee* prior to or at the *initial meeting*.)

- Analytical Review: Perform an analytical review of the statements and reports by reviewing the contents for: (1) completeness; (2) mathematical accuracy; and (3) consistency.
- Audit Period: Determine the *audit period*. Government Code Section 90002(e) provides the following guidelines for determining the *audit period*:
 - ✓ Audits of *candidate committees* and *ballot measure committees* cannot begin until after the last date for filing the first report/statement following the election(s) for the office for which the candidate ran, or following the election at which the measure was adopted or defeated.
 - ✓ Audits of *candidate committees* may cover all reports/statements filed since the last election for that office.
 - ✓ Audits of *ballot measure committees* may cover all reports/statements from the beginning date of the first report/statement filed in connection with the measure.

In accordance with the above-referenced guidelines, the following are some items to be considered in determining the *audit period*: 1) date the *committee* was formed; 2) dates covered by the last audit performed on the *committee*; 3) date the *Form 501* Candidate Intention Statement was filed; and 4) date the *Form 410* Statement of Organization was filed.

2.—Contacting the Committee and Scheduling the Initial Meeting

The auditor should send an *auditor notification letter* to the treasurer and the *committee* to schedule the *initial meeting* with a representative(s) (usually the treasurer or candidate). (See Appendix C for an Auditor Notification Letter template.) With the *auditor notification letter*, the auditor should enclose: (1) a list of the records that are required for audit (See Appendix D for examples); and (2) a *campaign audit* questionnaire (as substantially set forth in Appendix E). The *auditor notification letter* should tell the *committee* to complete the *audit questionnaire* and return it to the auditor. In the case of a campaign related audit, the *audit questionnaire* should be returned with a copy of the *committee's* check register and bank statements, prior to the *initial meeting* but no later than when the audit testing begins. By obtaining the check

~~register and bank statements prior to the *initial meeting*, the auditor will be able to review the *bank reconciliation* prior to the commencement of audit testing. If a *committee* has not conducted monthly *bank reconciliations*, the auditor should complete the *bank reconciliation*.~~

~~3. Performing the Bank Reconciliation and Preliminary Audit Tests~~

~~By reviewing or completing the *bank reconciliation* prior to audit testing, the auditor will be able to identify discrepancies and determine which periods/transactions to audit. Amended campaign statements should not be used when reviewing the *bank reconciliation* because most likely the *committee* did not rely on the amended information when completing its *bank reconciliation*.~~

~~Prior to obtaining and reviewing the *committee's* records, the auditor should perform the applicable preliminary testing. *Preliminary audit tests* may include a review of the *committee's* campaign statements to determine whether the *committee*:~~

- ~~• submitted the required filings by the prescribed deadlines~~
- ~~• filed statements and reports for the proper reporting periods~~
- ~~• provided the required contributor information (*campaign audits only*)~~
- ~~• abided by the contribution limits (*candidate committees only*)~~
- ~~• provided cumulative contribution amounts (*campaign audits only*)~~
- ~~• provided expenditure descriptions (*campaign audits only*)~~
- ~~• provided vendor information (*campaign audits only*)~~
- ~~• reported subvendor information (*campaign audits only*)~~

3. Conducting the Initial Meeting and Evaluating Internal Control

~~1. Initial Meeting~~

~~At the *initial meeting*, the auditor shall provide an overview of the audit process to the *committee* and answer any questions its representatives may have. The auditor may ask questions regarding the policies and procedures under which the *committee* operated and request additional information if needed. The auditor may ask the representative(s) to clarify any discrepancies the auditor may have found during the preliminary review or to explain in detail the responses that were provided on the *campaign audit questionnaire*.~~

Topics for discussion include, but are not limited to:

- Organizational structure: review staffing functions and the division of responsibilities.
- Obtain organizational chart if available, or create one as part of the *audit workpapers* if it

would be useful. Review the relationship between *committee* and candidate.

- A general description of how the *committee* operated. Ask for a general description of how funds were raised (e.g., luncheons, dinners, cocktail parties, neighborhood meetings, door-to-door solicitations, sales, etc.). Determine what type of advertising was used to promote the candidate/issue(s) (e.g., TV and radio spots, newspapers, literature, promotional gifts, etc.).
- Written literature: Ask for any brochures or similar literature used during the campaign.
- Records required to begin audit, which had been previously requested.
- Items disclosed by preliminary work that need to be discussed/clarified at this time.

~~2. Internal Control Review~~

The auditor shall obtain detailed information about the accounting controls practiced by the *committee*. Obtaining such information will allow the auditor to evaluate the *committee's internal control* structure. *Internal control* is a coordinated system of procedures and techniques designed to safeguard an entity's assets, to ensure the accuracy of its accounting records, and to promote efficiency and adherence to prescribed policies. Note that the majority of campaign *committees* do not maintain a rigid system of *internal control*. Based on the completed *campaign audit questionnaire* and *initial meeting*, the auditor can evaluate the extent to which records are reliable. Factors affecting this evaluation include additional interviews, the general condition of the records, the results of the *bank reconciliation*, and results of an initial sample. The auditor must document the study and evaluation of *internal control*. Examples of criteria to be used for evaluating *internal control* are set forth in Appendix E ~~F~~.

~~4. Conducting the Audit Testing~~

~~1. Audit Test Templates~~

~~The auditor shall conduct campaign audit testing in accordance with the templates contained in sections IV. The templates contain a list of objectives that the auditor must test to determine compliance. The criteria and objective for each test is identified. The methodology outlined for each test represents general procedures and guidelines. Because each audit will be unique based on the level of *internal control* established by the *committee* and the specific actions taken by the *committee*, the methodology outlined in the audit tests should be considered the minimal procedures that the auditor must perform. See Appendix G for audit testing procedures that may be used for statistical sampling.~~

~~The templates may not contain an all-inclusive list of requirements with which *committees* must comply. The auditor should make necessary adjustments to audit testing for any additions or changes to the laws and regulations applicable to campaign finance matters.~~

Compliance testing will be performed to determine whether a *committee* complied with the specific requirements of local law. Substantive testing is used to test for the existence of a

transaction, proper record keeping, and accuracy in disclosure. It is possible to conduct one test while simultaneously conducting part or all of another test. The extent of audit testing will be unique based on committee size, and the results of the preliminary work and evaluation of internal controls. Examples of criteria to be used for evaluating the extent of audit testing are set forth in Appendix F.

~~2. Location of Audit Testing~~

The review of the records may be performed at the auditor's place of work or the location where the records are maintained. Once the auditor has access to the records, he/she can conduct the necessary testing. The records should include statements and reports that were filed by the *committee* and supporting documentation regarding transactions.

~~3. Audit Workpapers~~

The auditor must document in the *audit workpapers* all the tests conducted. The *audit workpapers* shall also contain sufficient documentation regarding findings and documentation of requests for additional records or explanations provided by the *committee*. Documentation includes:

- A written record of relevant facts, figures and sources of information
- Photocopies of source documents when appropriate
- The objectives, criteria and methodology used for each audit test as well as the auditor's conclusions based on the findings of the testing performed.

5. Draft Audit Report and Review of Audit

After the auditor has completed all audit testing, documented the results of all audit tests in the *audit workpapers*, and completed the *draft audit report*, the audit supervisor shall review the *draft audit report*, *audit file*, and *audit workpapers* for:

1. Depth, scope and adequacy of content and procedures
2. Application of written policy and procedures
3. Adequacy of presentation
4. Documentation of exceptions
5. All *material* findings to ensure that findings discussed in the *audit workpapers* are included in the audit report

The supervisor will review the materiality of all findings. If the supervisor disagrees with the auditor's determination of materiality, both the auditor and supervisor shall review the circumstances again and reconsider the materiality conclusion. A determination shall be made regarding whether to amend the *draft audit report* prior to the scheduling of the *post-audit conference*. Once the *audit workpapers* and

draft audit report have been reviewed by the supervisor, the draft audit report will be given to the committee for review prior to the post-audit conference.

6. Post-Audit Conference

A post-audit conference will be conducted at the completion of the audit testing, and after the committee has had a reasonable opportunity to review the draft audit report. The purpose of the post-audit conference is to discuss audit findings with the committee. In discussing the audit findings, the auditor shall also discuss the positive aspects of the committee's records. Each finding shall be fully explained. The committee may provide comments and explanations regarding the material findings.

The auditor shall inform the committee that a final audit report will be forwarded to the Commission and may result in the initiation of a formal investigation or the preparation of a Draft Administrative Complaint and Probable Cause Report in cases of violation of law, to the appropriate enforcement agency. ~~The auditor should also inform the committee that the audit is subject to review.~~

7. Final Audit Reports

After the draft audit report has been discussed with the committee at the post audit conference, the auditor shall prepare the final audit report and submit it to the Commission. The auditor may, in the final audit report, note any explanations and arguments raised by the committee. See Appendix G H for a final audit report template.

~~Audit reports are formal narrative documents based on the audit testing that was performed. These reports include a description of the committee's background information, the authority for the audit, the scope of the audit, and a summary of the results of the audit as expressed through written findings and determinations. If the audit produces no material findings of a violation or produces only findings of a violation that are not material, the auditor shall prepare a final audit report and submit it to the Commission during open session.~~

~~Audit reports that contain material findings shall be provided to the committee, in the form of a draft audit report, for comment. The draft audit report shall be sent to the committee no later than two weeks prior to the post-audit conference. If the committee provides additional documentation or a written explanation that may affect the materiality of a finding, the auditor shall review such information, and may reconsider the findings. After the committee has had an opportunity to comment on any material findings, the auditor shall prepare a final audit report and submit it to the Commission. The auditor should, in the final audit report, note any explanations and arguments raised by the committee. See Appendix H for a final audit report template.~~

~~The audit is concluded once the final audit report has been delivered to the Commission. All final audit reports shall be sent to the committee and posted to the Commission's website, and shall be made available for public inspection at the Commission offices.~~

If the final audit report contains material findings, the Commission's Executive Director shall present the report at a closed session meeting of the Commission. At this meeting, the Commission shall vote on whether the material findings contained in the final audit report warrant the initiation of a complaint. The Commission's consideration of the material findings shall be conducted in a manner essentially identical to its handling of a complaint that has been processed through the Preliminary

Review stage and become subject to the *Commission* determination stage set forth in section 26.0423 of the San Diego Municipal Code. The *Commission* may instruct the *Executive Director* to either initiate a formal investigation or prepare a Draft Administrative Complaint and Probable Cause Report against the *committee* that is the subject of the audit.

After the *final audit report* has been presented to the *Commission* it shall be sent to the *committee* and posted to the *Commission's* website.

B. Lobbying Audits

1. Preliminary Work

Twice a year, the auditor will request the *City Clerk* provide:

- a. a list of all registered lobbyists for that calendar year; and
- b. all Lobbyist Disclosure reports from the prior two calendar quarters; and
- c. the Statements of Economic Interest (SEI's) for all *high level filers* and selected *local code filers*

The auditor will prepare a spreadsheet of all registered lobbyists sorted by (1) lobbyist name, (2) employer, and (3) client. The auditor will also prepare spreadsheets of all gifts disclosed on the Lobbyist Disclosure reports and all gifts disclosed by *high level filers* and selected *local code filers* on their SEI's.

2. Audit Testing

The auditor shall compare gifts disclosed by *lobbyists* to gifts disclosed by *high level filers* and *local code filers* to determine whether lobbyists properly reported activity expenses during the reporting period. Any discrepancies shall be described in the *draft audit report*. All *audit workpapers* shall be organized in the *audit file* and shall support any *material* findings contained in the *draft audit report*.

3. Audit Review and Lobbyist Contact

After the auditor has completed all audit testing, documented the results of all audit tests in the *audit workpapers*, and completed the *draft audit report*, the audit supervisor shall review the *draft audit report* and *audit file*. If the supervisor disagrees with the auditor's determination of materiality, both the auditor and supervisor shall review the circumstances again and reconsider the materiality conclusion. A determination shall be made regarding whether to amend the *draft audit report* prior to contacting only *lobbyists* identified in the *draft audit report*.

The auditor shall contact all *lobbyists* who are mentioned in a *material* finding to obtain his or her response and/or explanation of the situation surrounding the gift in question. If the *lobbyist* provides additional documentation or a written explanation that may affect the *materiality* of a finding, the auditor shall review such information, and may reconsider the findings.

4. Final Audit Report

After the *material* findings contained in the *draft audit report* have been discussed with the *lobbyist(s)* the auditor shall draft the *final audit report* and submit it to the *Commission*. The auditor may, in the *final audit report*, note any explanations and arguments raised by the *lobbyist(s)*. If the audit produces no *material* findings the auditor shall prepare a *final audit report* and submit it to the *Commission* during open session.

If the *final audit report* contains *material* findings, the *Commission's* Executive Director shall present the report at a closed session meeting of the *Commission*. At this meeting, the *Commission* shall vote on whether the *material* findings contained in the *final audit report* warrant the initiation of a complaint. The *Commission's* consideration of the material findings shall be conducted in a manner essentially identical to its handling of a complaint that has been processed through the Preliminary Review stage and become subject to the *Commission* determination stage set forth in section 26.0423 of the San Diego Municipal Code. The *Commission* may instruct the *Executive Director* to either initiate a formal investigation or prepare a Draft Administrative Complaint and Probable Cause Report against the *committee* that is the subject of the audit.

After the *final audit report* has been presented to the *Commission* it shall be sent to the *lobbyist(s)* and posted to the *Commission's* website.

IV. TEMPLATES FOR AUDITS OF CAMPAIGN STATEMENTS

***THIS SECTION HAS BEEN DELETED AND
WILL BE USED AS AN INTERNAL DOCUMENT ONLY***

V. TEMPLATES FOR AUDITS OF LOBBYING STATEMENTS

***THIS SECTION HAS BEEN DELETED AND
WILL BE USED AS AN INTERNAL DOCUMENT ONLY***

APPENDIX A

AUDIT STANDARDS

A. General Standards

1. The auditor must have adequate technical training and proficiency.
2. The auditor must maintain independence in mental attitude in matters relating to the assignment.
3. The auditor must exercise due professional care in the performance of the audit and in the preparation of the report.

B. Standards of Fieldwork

1. The work must be adequately planned and assistants, if any are used, must be properly supervised.
2. There must be a proper study and evaluation of *internal control*.
3. Sufficient competent evidentiary material must be obtained through inspection, observation, inquiries, and confirmation to afford a reasonable basis for an opinion regarding the reports and statements under examination.
4. A review must be made of compliance with legal and regulatory requirements.

5. Standards of Reporting

- At the completion of every audit, written audit reports must be prepared and issued.
- Audit reports containing violations must be forwarded to the appropriate enforcement agency.
- Reports are to be issued as promptly as possible so that the information is available for timely use by enforcement agencies.
- The content of each report must include:
 - ✓ A statement and explanation of the scope of the audit.
 - ✓ Documentation of instances of *material* non-compliance with any legal/regulatory requirements.

- ✓ Relevant explanations made by filers and, if appropriate, the auditor's comments on those explanations.
- Preparation, review and processing procedures must be applied to produce reports that contain no omissions of *material* findings or errors of fact, logic or reasoning.
- Findings must be presented in an objective and unbiased manner and must include sufficient information to provide readers with proper perspective.

APPENDIX B Ø

LIST OF RECORDS REQUIRED FOR THE AUDIT¹

I. Documents to request from Committee Treasurer prior to initial meeting:

- Copies of Bank Statements for entire audit period
- Copies of Check registers for the entire audit period
- Completed Campaign Audit Questionnaire

II. Documents to have available during the audit testing:

- Financial Statements (Balance Sheet and Income Statements)
- Accounting ledgers and journals
- Deposit records including:
 - ✓ Deposit Slips
 - ✓ Contribution envelopes
 - ✓ Contributor checks
- Disbursement records including:
 - ✓ Cancelled checks
 - ✓ Vendor Invoices
- Any and all Loan documents
- Petty cash fund: register, logs, receipts, vouchers
- Lease or rental agreements, receipts, bills, invoices
- Vendor contracts

¹ Additional records may be required for completion of the audit.

APPENDIX E C

CAMPAIGN AUDIT QUESTIONNAIRE

FOR THE PERIOD OF January 1, 200__ through December 31, 200__

1. List the names and duties of campaign advisors and/or managers. If applicable, list name(s) and period(s) of time for past treasurer(s) within the period indicated above.
2. If the committee had full time employees or employed public relations, advertising, or consulting firms, please provide their names.
3. Who was responsible for the accounting procedures?
4. Who maintained the committee=s records? Where were they maintained?
5. Who prepared the filed statements?
6. The committee=s campaign headquarters were located at:
7. Was the space rented or donated? From whom?

CONTRIBUTIONS

8. How were contributions solicited?

_____ Telephone _____ Mail _____ Fund raisers _____ Other (describe below)

9. Please explain how contributions were processed and recorded from the time they were received to the time they were deposited.
10. In preparing the campaign statements, how was the date-of-receipt for contributions determined and what records are available to document this date?
11. How were cumulative amounts for contributors determined?
12. Please provide the following information for all the committee=s financial accounts. (Checking, savings, certificates of deposit, money market accounts, and any other accounts in which funds were placed.)

Type of Account	Account Number	Name and Address of Financial Institution	Date Opened	Date Closed
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Please make available all of the bank statements for the accounts listed above. The statements should cover the audit period and the month before and the month after the audit period.

13. Did the committee receive any pledges (enforceable promises to make a payment)? Please explain the nature of form of payment promised.

1. If fund raising activities were utilized, please complete the following:

Date	Description of Activity	Person in Charge
_____	_____	_____
_____	_____	_____
_____	_____	_____

Please have available copies of any fund raiser budgets or recaps for each activity.

15. What types of records were maintained for contributions?

a. _____ copies of contributor checks. Indicate order in which file is maintained.

_____ Date of deposit

_____ Date of receipt

_____ other, please explain

b. _____ duplicate deposit slips

c. _____ contributor card file

d. _____ contributor ledger

e. _____ cash receipts journal

f. _____ computer file, what software was used:

g. _____ other, please explain:

16. Did the committee maintain copies of notices sent to major contributor? If so, please have them available for audit.

17. How were non-monetary contributions valued and by whom?

Please have available copies of documentation to verify the value of non-monetary contributions.

18. How were late contributions identified and reported?

If late contribution reports were filed, please have them available for the audit.

EXPENDITURES

19. Who approved payments for expenses incurred on behalf of the committee?

20. Provide names of individuals authorized to sign on the committee=s checking account(s).
21. How many signature were required on the committee=s checks?
22. What types of records were maintained for expenditures?
- a. _____ invoices and receipts file. Indicate order in which file is maintained:
 - _____ check numbers
 - _____ dates paid
 - _____ period or sequence as reported on campaign statements
 - _____ other, please explain:
 - b. _____ card file
 - c. _____ expenditures/disbursements journal
 - d. _____ canceled checks
 - f. _____ other, please explain
23. Are all disbursements or payments supported by an invoice or receipt?
24. Were any expenses paid from personal funds? If so, please have the invoices and the canceled checks available for the audit.
25. How were accrued expenses determined by the committee?
26. If the committee utilized a bulk rate postal account, please provide bulk rate number and address of post office.
27. If the committee utilized phone banks, please indicate how many, location, and names of person in charge

28. If there was a petty cash fund, how were the funds controlled and by whom?

29. If any loans were made or received by the committee, do you have written loan agreements for all the loans?

These responses were completed by:

Print Name

Signature

Title

Date

Please retain a copy for your records.

APPENDIX D B

LIST OF DOCUMENTS TO REQUEST FROM CITY CLERK

Form 501 – Candidate Intention Statement

Form 410 – Statement of Organization

Form 460 – Recipient Committee Campaign Statements

Form 461 – Independent Expenditure Committee Statement (~~obtain for audit of candidate controlled committee~~)

Form 465 – Supplemental Independent Expenditure Report (~~obtain for audit of candidate controlled committee~~)

Form 470 – Officeholder and Candidate Campaign Statement, Short form

Form 470 – Supplement

Form 496 – Late Independent Expenditure Report

Form 497 – Late Contribution Report

Form 700 – Statement of Economic Interests

APPENDIX F E

CRITERIA FOR INTERNAL CONTROL

A. The following criteria can be used to study and evaluate *internal control*:

1. Size, type and scope of operation
2. Scope-determine what *internal controls* the entity has in effect
3. Review-determine if the existing system is adequate for that entity
4. Test-determine if the prescribed procedures are being followed by the particular entity
5. The records that are maintained
6. The methods, completeness and accuracy of the records maintained
7. The relative importance of requirements that are not met

B. Some criteria essential to adequate *internal control* include:

1. The person who keeps the books should not have access to cash. Approving purchases and paying functions should be kept separate.
2. All receipts should be recorded immediately and deposited intact without delay. Duplicate copies of deposit slips should be maintained.
3. Bank statements should be reconciled with the *committee's* books or records.
4. Procedures should be established for signing checks. Checks for campaign expenditures over a certain amount should require more than one signature and/or written authorization for payment. Blank checks should not be signed.
5. Records of receipts and expenditures should be maintained in such a manner as to show required cumulative totals.
6. Original source documents must be maintained in addition to the *committee's* own data records. Source documents include letters/remittance envelopes from contributors that contain contributor information. The *committee's* data records may consist of a spreadsheet that records corresponding contributor information.
7. If a petty cash fund for small disbursements is created, a receipt or written voucher should be maintained for all cash expenditures. A running petty cash register should also be maintained.
8. With the exception of petty cash disbursements, all expenditures should be made by serially pre-numbered checks.

APPENDIX G-E

EXTENT OF AUDIT TESTING

A. Sample Selection for Campaign-Related Audits

In large audits it is often impossible to review every piece of data. *Sampling* not only speeds the operation of the audit but also reduces its costs. Because the AICPA accepts conclusions based on *sampling* as valid, *sampling* techniques may be used in all audit areas. The auditor shall determine when and where *sampling* is appropriate and select the method of *sampling*. The extent of *sampling* should be dependent on the evaluation of *internal control*. (That is why *internal control* must be evaluated prior to beginning testing.)

B. Representative Samples

Factors affecting the size of the sample shall include *internal control* procedures; prior audit reports; organization of the records; the experience of the record-keeper; the nature of the *committee's* activities; information from outside sources; and the volume, size, and source of contributions. It is important to note that sample testing will not necessarily detect isolated exceptions. However, a representative sample will probably provide an accurate picture of the area as a whole. Some suggested methods for selecting a sample are:

1. Statistical *sampling*
2. Judgmental *sampling*:
 - Select every 3rd 4th 5th item, etc.
 - Audit all transactions on selected statements filed. (Based on activity, dollar volume, etc.)
 - Stratify contributions according to dollar amount such as \$100-\$250, \$250-\$1000, \$1000 and over, and then apply another method.
 - Select contributions from the filer's records based on alphabetical order.
 - Select contributors based on profession/business.
 - From a very large universe of items, select small segments from various locations within the universe.
 - Select expenditure transactions occurring in specific months or weeks based on records, i.e., checks, invoices and ledger.
 - Select expenditure transactions based on type of vendor.
 - Select expenditure transactions based on alphabetical order, check numbers or invoice numbers.

APPENDIX G H

FINAL AUDIT REPORT

Date:

Committee/Candidate

Street Address

City, State, Zip

Treasurers: Name

Street Address

City, State, Zip

SAN DIEGO ETHICS COMMISSION AUDIT REPORT: (Committee Name)

I. Introduction

This Audit Report contains information pertaining to the audit of the committee, _____ Identification Number _____ (“the Committee”) for the period from _____ ~~January 1, 200x~~ through _____ ~~December 31, 200x~~. The audit was conducted to determine whether the Committee materially complied with the requirements and prohibitions imposed by the Political Reform Act (“the Act”) (Government Code Section 81000, *et seq.*) and San Diego’s Ethics Ordinance (San Diego Municipal Code Chapter 2, Article 7, Division 35).

During the period covered by the audit, the Committee reported total contributions of \$ _____ and total expenditures of \$ _____. **There were no material findings with respect to this Audit Report. The Committee substantially complied with the disclosure and record-keeping provisions of the Act and the San Diego Ethics Ordinance. Or The audit revealed _____ material finding(s): The Committee failed to _____ in violation of Government Code Section _____.**

II. Committee Information

On _____, 200x the Committee filed a Statement of Organization with the San Diego City Clerk indicating that it qualified as a committee. The Committee was formed to support the election of _____ for _____ in the _____, 200x election. On _____, 200x the Committee filed a Recipient Committee Statement of Termination indicating that its filing obligations were completed on _____, 200x. The Committee's treasurer was _____.

III. Audit Authority

The Commission is mandated by San Diego Municipal Code section 26.0414 to audit campaign statements and other relevant documents to determine whether campaign committees comply with applicable requirements and prohibitions imposed by State and local law.

IV. Audit Scope and Procedures

This audit was performed in accordance with generally accepted auditing standards. The audit involved a thorough review of the Committee's records for the time period covered by the audit. This review was conducted to determine:

1. Compliance with all disclosure requirements, pertaining to contributions, expenditures, accrued expenditures, and loans, including itemization when required;
2. Compliance with applicable filing deadlines;
3. Compliance with restrictions on contributions, loans and expenditures;
4. Accuracy of total reported receipts, disbursements and cash balances as compared to bank records; and
5. Compliance with all record-keeping requirements.

V. Summary of Applicable Law

(Complete this section only if a material violation exists. This is the section where the auditor would document the law applicable to the material finding(s).)

VI. Material Findings

Section _____: Failure to _____

(Summary of the material findings)

V. Conclusion

Through the examination of the Committee's records and campaign disclosure statements, the Auditor verified that the Committee accurately and timely disclosed all contributions received and all expenditures made and that the Committee maintained the necessary documentation regarding contributions and expenditures. **As a result, the Auditor determined that there were no material findings. The Committee substantially complied with the disclosure and record-keeping provisions of the Act and the San Diego Ethics Ordinance. Or - However, the Committee failed to _____ in violation of Section _____ of the act.**

Auditor's Name and Title

Date

Audit Supervisor's Name and Title
Title

Date

APPENDIX C

AUDITOR NOTIFICATION LETTER

DATE

NAME

COMMITTEE (ID NUMBER)

ADDRESS

CITY ST ZIP CODE

In accordance with rules and procedures adopted by the City of San Diego Ethics Commission, we are required to audit your campaign statements for the period **JANUARY 1, 200_ THROUGH DECEMBER 31, 200_**.

To aid us in scheduling the audit appointment, please provide the information requested below and **return this letter** in the enclosed business reply envelope.

Please refer to the information enclosed with this letter that explains the audit purpose, audit selection, pre-audit preparation, post audit procedures, and other matters of interest.

We appreciate your cooperation.

[Auditor]

Enclosure

Name and title of person to contact for the audit:		
Name and title of person to contact for discussion of the audit findings:		
Location where your records can be examined during normal working hours:		
Telephone Number:	Email Address:	
Date:	Signature:	Title:

APPENDIX I

CONFIRMATION LETTER FOR
COMMITTEE CONTRIBUTIONS

Date

Name

Address

City, State Postal Code

The San Diego Election Campaign Control Ordinance and the California Political Reform Act of 1974 require public disclosure of all receipts and expenditures by candidates for public office and by the committees that support them, and by committees that either support or oppose ballot measures. The objective of this requirement is to ensure that these candidates and committees are in compliance with the provisions of state and local law.

The City of San Diego Ethics Commission verifies monetary and non-monetary contributions by sending this confirmation form to a random sample of campaign contributors. Your name is shown as a contributor on campaign statements filed by **[name or names of the committee and period]**.

Please provide the following information for each contribution you made to the candidates or committees listed above. Include any monetary and non-monetary contributions made during the above period.

<u>Date</u>	<u>Amount</u>	<u>Description</u> <u>(Cash, Check, Other)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Signature

Date

Please return this letter with your reply. An envelope is enclosed for your reply. A notice required by the Information Practices Act of 1977 is also enclosed. Your prompt response will be appreciated.

Please retain a copy for your records.